

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Fourth Quarter of 2004 through the Fourth Quarter of 2008

The forecast presented here can be described as a “new and improved version” of the Idaho economic outlook. Indeed, this forecast is slightly more bullish than the forecast that was published in January 2005. In the current forecast, Idaho nonfarm employment advances 2.5% in 2004 and averages 1.8% growth thereafter. At this pace, nonfarm employment reaches 630,439 in 2008. Both Idaho nominal and real personal income post their strongest growth in 2004, 6.4% and 4.1%, respectively. During the 2005 to 2008 period, Idaho nominal income rises 5.5% annually. Over this same period Idaho real personal income increases 3.5%.

Earlier this year it was reported Idaho’s economy would experience steady, but slow growth over the next few years. Specifically, Idaho nonfarm employment was anticipated to increase 2.6% in 2004 and average 1.7% annual growth over the remaining years of the forecast, so by 2008 the state’s total employment would be about 628,000. In January 2005, it was projected Idaho nominal personal income would expand at a 5.3% annual pace. Adjusted for inflation, Idaho personal income was expected to grow about 3.3% per year.

Major differences between the current and previous Idaho forecasts have been described in the preceding two paragraphs. While these broad observations are essential, a more detailed look at the forecasts’ components reveals larger changes. Perhaps the most notable change is Idaho construction employment. In January 2005, the number of construction jobs was forecast to peak at 39,000 in 2004 then gradually decline over the forecast period. However, data available since then show construction employment was still strong in late 2004. This should carry momentum into this year, so Idaho construction employment is now expected to peak at around 40,200 in 2005. As in the previous forecast, Idaho construction employment is expected to eventually slip, but the decline from its peak will not be as steep.

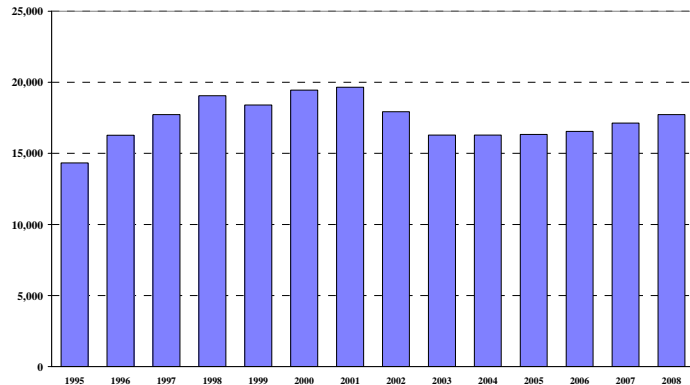
Part of the reason construction employment has been so strong is because of healthy housing starts. For example, instead of retreating at a 9.8% rate as had been predicted, Idaho housing starts expanded at a 20.2% annual rate in the last quarter of 2004. This has raised the starting point for the housing forecast and pushed its zenith to 2005 from 2004. It is anticipated housing starts will eventually yield to rising interest rates and gradually decline. But offsetting the negative effects of higher interest rates is stronger population growth. For several years, the forecasts called for Idaho’s population growth to downshift to about 1.5%. And for several years, the population has grown faster. Most recently, the U.S. Census Bureau estimated the Gem State’s population grew 1.9% in 2004, which was well above the 1.5% pace reported earlier. As a result, the Idaho population forecast has been revised upwards, so the number of residents in 2008 is 11,400 higher than had been previously forecast.

In summary, Idaho’s economic outlook has improved compared to the January 2005 *Idaho Economic Forecast*. The Gem State can expect slow, steady growth over the forecast period. While this may not match the state’s stellar showing in the 1990s, it is a welcome improvement from its soft performances in 2002 and 2003.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: The state's largest manufacturing employment sector regrouped in 2004 after taking stiff hits in 2002 and 2003. It is poised to experience steady, but relatively slow job growth over the forecast period. In order to appreciate the significance of last year's turnaround, one must review this sector's recent history. Idaho computer and electronics has been one of the strongest performers during the state's protracted expansion that began in the late 1980s. Over this period, computer and electronics employment sped along much faster than overall Idaho

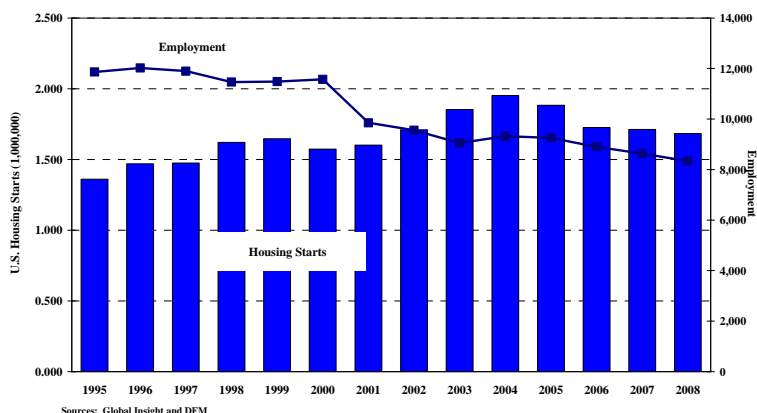
Idaho Computer & Electronic Products Employment



nonfarm growth, passing several mileposts along the way. Near the beginning of the expansion, this sector overtook the lumber and wood products sector to become the state's largest durable manufacturing employer. It became the state's largest manufacturing employer when it passed the food processing sector in 1997. The long string of Idaho computer and electronics annual job gains was broken when this sector shrank 3.4% in 1999. However, this setback was small compared to the fallout it suffered after the high-tech bubble burst. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% each year from 1995 through 1999. The output of U.S. computer and electronic equipment producers averaged over 31% annual growth during the second half of the 1990s. Unfortunately, real business investment retreated in 2001 and 2002. In 2001, Jabil Circuit, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. The one notable exception to the companies shedding jobs was Micron Technology. Despite being hard hit by the reeling high-tech sector, the state's largest private employer was able to avoid layoffs in both 2001 and 2002. Micron Technology eventually succumbed to the weaker business conditions and laid off over 1,000 of its Idaho workforce the winter of 2003. The tally taken at the end of 2003 shows Idaho computer and electronics sector jobs lost about 4,700 during the 11-quarter downturn. Conditions improved in 2004, and this sector's employment grew in three of that year's four quarters. Micron recently announced its payroll is back to its pre-layoff level. However, the future will have its challenges. One of the biggest challenges is how to avoid a glut of supply in the global semiconductor market. Many of the semiconductor industry's worst years can be traced to overproduction which caused prices of these devices to collapse. On a positive note, there is some evidence manufacturers are displaying more self-discipline than in the past, and this could keep supply and demand more balanced and help avoid another price collapse.

Resource-based Sectors: Agriculture in Idaho is undergoing stress from a variety of quarters, with water issues being of primary concern to southeastern Idaho farmers. A recent order issued by the Director of Water Resources requires that ground water pumpers from the Snake River Plain Aquifer supply senior water rights holders with 133,400 acre-feet of water in order to be allowed to continue pumping groundwater. While this issue is far from settled, agriculture experts at the University of Idaho believe the water issues will have more impact on the composition of Idaho agriculture than the monetary value of output. Put simply, high valued uses are expected to find the water needed to

Idaho Logging & Wood Products Employment and U.S. Housing Starts



operate. Two of the state's resourced-based sectors, mining and logging and wood products, enjoyed a respite in 2004 from their string of job losses. Unfortunately, this relief is expected to be short lived, and both sectors are expected to resume losing jobs this year. Employment in the lumber and wood products sector most recently peaked in 1996 and, except for two minor gains in 1999 and 2000, had been falling until 2004. The worst year was 2001, when employment declined a whopping 14.9%. Employment fell by another 3.0% in 2002 and 5.3% in 2003. The closing of

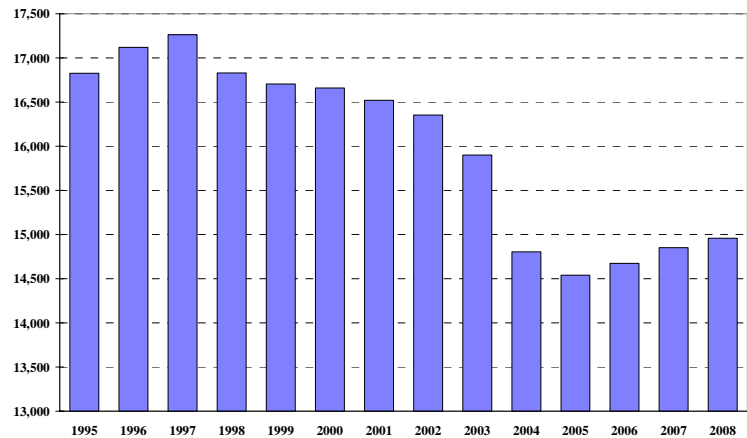
several mills over this period caused a portion of these declines. One of the reasons these mill closures are distressing is because their job losses are permanent. Unlike cyclical layoffs, where employees are recalled when business conditions improve, workers from closed mills have no place to return to work. It should also be pointed out that these tend to be high-paying jobs and the mill is often a community's major employer. As a result, the fallout from a mill closure is felt not just inside the mill's gate, but also throughout the community. Last year's employment increase suggests the Gem State's logging and wood products sector may have finally benefited from the strong demand for housing. Idaho mills also benefited from the falling dollar which improved their competitiveness against their Canadian rivals. However, as the U.S. housing market recedes from its recent record levels, this sector's fortunes will be shaped by supply forces. This sector depends on timber from public lands, but this supply has been dwindling. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the state total. In comparison, federal lands in Idaho yielded just 102 mbf a decade later, which was less than 10% of the total harvest. The uncertainty of supply from federal forest is just one cloud on this sector's forecast horizon. Another concern is the current manufacturing over capacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. In addition, unresolved fair trade issues between the U.S. and Canada are another source of uncertainty. Strong metal prices stalled Idaho mining job losses in 2004. Over time, this sector has experienced both expansions and contractions consistent with the business cycle. Idaho mining employment fell from the beginning of 1991 until it hit a trough in 1993. Employment hit its next peak in 1997. The mining sector has been shedding jobs since then. A clear pattern is that each successive mining employment peak is lower than the previous one. This trend is expected to continue, and this does not bode well for the state's mining sector, despite the 2004 job increase.

Food Processing: One of the Gem State's cornerstone manufacturing sectors, food processing, appears to be starting a new chapter in its long and rich history. This will be a welcome change from the string of job losses it has suffered in recent years. Buffeted by structural and cyclical storm winds, this sector shed nearly 2,500 jobs from 1997 to 2004. Contributing to these losses were the closures of some of the state's older processing facilities that were deemed to no longer be efficient. For example, J.R. Simplot Company shuttered its Heyburn potato processing plant that had been built in 1960 and had run continuously since that time. This closure reflects a trend of closing older, less efficient plants and replacing their production in plants located outside of the Gem State. Nearly 360 jobs were lost when unfavorable business conditions caused J.R. Simplot Company to also close its Nampa meat packing

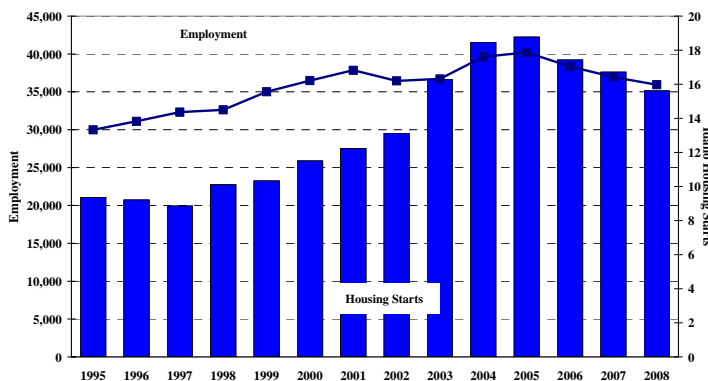
plant in the fall of 2003. However, not all trends have been negative. The food-processing sector has benefited from the states expanding dairy industry. According to the USDA, the size of Idaho's dairy herd has nearly doubled from 208,000 cows in 1994 to 404,000 cows in 2003. Over this same period, milk production more than doubled from 3.8 billion gallons to 8.8 billion gallons because of the increased output per cow. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars

in 1994 to over one billion dollars in 2003. The dairy industry continues to shore up this sector's employment. J.R. Simplot Company gifted the entire property of its Heyburn plant to the City of Burley, and Gossner has already announced plans to build a cheese plant at the site. The plant will create over 40 jobs when it becomes operational in October 2005.

Idaho Food Processing Employment



Idaho Construction Employment & Housing Starts



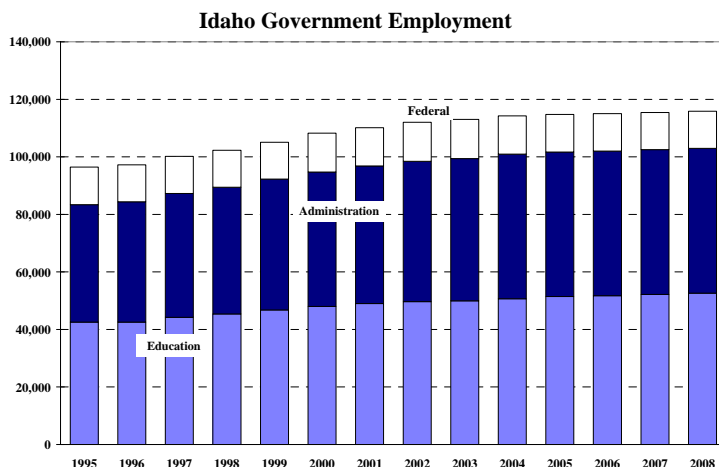
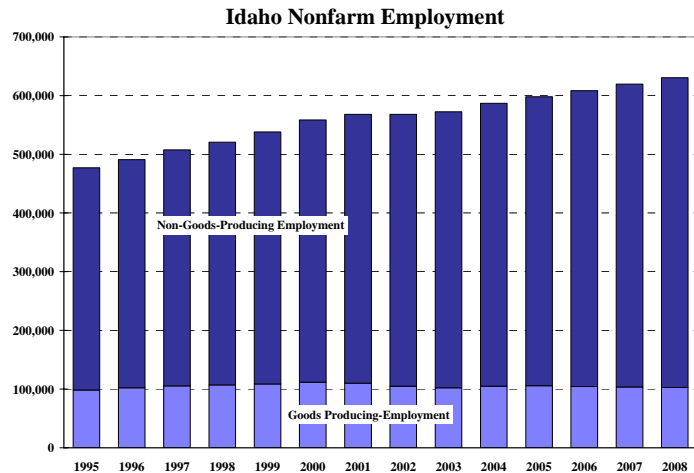
Construction: The construction sector outlook is decidedly more bullish in this *Forecast* compared to the previous *Forecast*. This can be seen in both housing starts and construction employment projections. The January 2005 *Forecast* reported Idaho housing starts would reach a zenith of 18,077 units in 2004 then gradually decline to about 14,000 units in 2008. However, recent data suggest this forecast was too bearish. For example, the previous forecast assumed annualized housing starts would peak at around 19,300 units in the third quarter of 2004 then begin its retreat. However, more recent data show total housing starts grew to over 20,000 units in the last

quarter of 2004 instead of declining, suggesting there was still wind in this sector's sails. As a result, the starting point for the housing forecast has been raised and its decline is now shallower than in the previous forecast. Specifically, Idaho housing starts are expected to be 18,778 units this year, 17,433 units next year, 16,728 units in 2007, and 15,623 units in 2008. In the January 2005 *Forecast* Idaho housing starts were projected at 17,634 units in 2005, 16,252 in 2006, 15,296 in 2007, and 13,968 in 2008. The stronger housing outlook has lifted the prospects for Idaho construction employment. Like housing starts, it was previously believed construction employment would run out of steam near the end of 2004 and show its first annual decline since 2002 in 2005. New data provided by the Idaho Department of Labor suggest the forecasted employment decline was premature. Instead of declining during the second half of 2004, Idaho construction employment actually expanded 0.8% in the third quarter and rose 5.4% in the fourth quarter. This late employment surge helped delay the next year-over-year construction employment loss a full year until 2006. Under the current forecast, Idaho's construction payroll will rise to over 40,000 jobs in 2005 then fall gradually to about 36,000 jobs in 2008. This is a marked change from the previous forecast where the number of Idaho construction jobs falls from about 38,000 jobs in 2005 to around 34,200 jobs in 2008.

Nongoods-Producing Industries:

Idaho's largest employment sector will also be one of its fastest growing sectors. The state's nongoods-producing sector is forecast to average 2.3% annual growth over the forecast period, which is faster than the 2.0% growth for total Idaho nonfarm jobs. The importance of the state's nongoods-producing sector cannot be overstated. Like its national counterpart, the nongoods-producing sector accounts for the lion's share of nonfarm Idaho jobs. Nongoods-producing employment accounts for eight of every ten nonfarm

jobs in Idaho. The two largest nongoods employers are services and trade that together represent three-fourths of nongoods-producing employment. The services category is the larger of the two categories. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. The next largest group consists of financial services; transportation, warehousing, and utilities; and other services. The smallest sector is information services. Overall, total service-related employment should advance about 3.1% annually. Professional and business services should be one of Idaho's strongest performers during the next few years. After experiencing a relatively anemic showing in 2003, professional and business services employment should expand an average of 3.9% per year through 2008. Education and health services employment should benefit from increased demand for health services caused by the aging population. Education and health services should grow 3.3% annually. Leisure and hospitality services employment is forecast to increase an average of 3.0% annually. Financial services employment growth is projected to average 2.6%, while transportation, warehousing, and utilities are expected to average 1.5% growth. Other services should advance 1.7% yearly. The number of information services jobs is predicted to increase 4.0% annually. The trade sector consists of its retail and wholesale components. The retail component accounted for over 73,000 jobs in 2004, which is roughly three times the size of the wholesale component. Retail trade should average 2.2% growth over the forecast period, while wholesale trade advances at a 2.5% yearly pace.



Government: Idaho government employment will grow much slower this decade than it did in the 1990s. From 1991 to 2000, the Idaho state and local employment payroll expanded an average of 3.0% per year, or by nearly 2,500 jobs annually. This strong growth resulted from state's exploding population. From 1990 to 2000, the state's population grew about twice as fast as the nation's. As had been the case through most of Idaho's history, the 1990's population surge resulted from new residents moving into the state and not due to the natural (births less deaths) population change. In fact, Idaho net

migration was higher than the natural increase in every year from 1991 to 2000. The main reason the Gem State proved to be so attractive to newcomers is because in the 1990s it was a haven of economic strength in a sea of economic turmoil. For example, Idaho's economy thrived during the 1990-91 recession while many states faltered. California was particularly in dire straits. Not only was the Golden State reeling from the 1990-91 national recession, but it was also suffering the impacts of defense industry consolidations and military base closures. This combination of factors created the worst downturn in California since the Great Depression. The influx of newcomers into Idaho stretched the state's existing infrastructure, and government employment grew as a result. Idaho state and local government employment was expected to slow considerably this decade as Idaho's population growth tapered down to 1.5% annual growth. Interestingly, U.S. Census Bureau estimates show Idaho's population has been growing slightly faster than anticipated this decade. In spite of this, the employment outlook for this sector remains virtually unchanged from the previous forecast. Idaho state and local government employment is expected to grow slowly over the next few years. Over this period, education-related employment should fare better than noneducation-related employment. Specifically, Idaho education employment should advance about one percent annually, producing about 1,900 new jobs from 2004 to 2008. Noneducation employment should remain flat over this period. Federal government employment is expected to be even weaker. While the prognosis for state and local noneducation government jobs is flat, the number of federal jobs in the Gem State is expected to shrink. Unlike state and local employment, the number of federal jobs in Idaho is set by factors beyond its borders. Federal budget writers in Washington, D.C. mainly determine federal employment in Idaho. This being the case, the return of federal deficits does not bode well for Idaho federal government employment. As a result, Federal government employment in Idaho is expected to decline from 13,261 in 2004 to 12,909 in 2008.